



*THE VALUE OF PERFORMANCE.*  
***NORTHROP GRUMMAN***

# Northrop Grumman Third Quarter 2018 Conference Call

October 24, 2018

Wes Bush  
Chairman and Chief Executive Officer

Kathy Warden  
President and Chief Operating Officer

Ken Bedingfield  
Corporate Vice President and Chief Financial Officer

# Forward-Looking Statements

This presentation and the information we are incorporating by reference contain statements, other than statements of historical fact, that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “intend,” “may,” “could,” “plan,” “project,” “forecast,” “believe,” “estimate,” “guidance,” “outlook,” “anticipate,” “trends,” “goals” and similar expressions generally identify these forward-looking statements. Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in our 2017 Annual Report on Form 10-K, the section entitled “Risk Factors” in the Form 10-Q for the quarter ended June 30, 2018 and in other filings with the Securities and Exchange Commission (SEC). They include:

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs and U.S. government funding more broadly
- investigations, claims, disputes, enforcement actions and/or litigation
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, laws and regulations
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate and the impact on our reputation, our ability to do business, and our financial position, results of operations and/or cash flows
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials, chemicals and components
- changes in procurement and other laws, regulations and practices applicable to our industry, findings by the U.S. government as to our compliance with such laws and regulations, and changes in our customers’ business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce
- our ability to meet performance obligations under our contracts, including obligations that are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- environmental matters, including unforeseen environmental costs and government and third party claims
- natural and/or environmental disasters
- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- products and services we provide related to hazardous and high risk operations, which subject us to various environmental, regulatory, financial, reputational and other risks
- the future investment performance of plan assets, changes in actuarial assumptions associated with our pension and other post-retirement benefit plans and legislative or other regulatory actions impacting our pension, post-retirement and health and welfare plans
- our ability successfully to integrate the Orbital ATK business and realize fully the anticipated benefits of the acquisition, without adverse consequences
- our ability to exploit or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers
- the components, production and use of certain of our products involve hazardous and significant risks
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets
- unanticipated changes in our tax provisions or exposure to additional tax liabilities
- qualification of the Alliant Techsystems Inc. spin-off of Vista Outdoor Inc. as a tax-free transaction

Additional information regarding these risks and other important factors can be found in the section entitled “Risk Factors” in our 2017 Annual Report on Form 10-K, the section entitled “Risk Factors” in the Form 10-Q for the quarter ended June 30, 2018 and from time to time in our other filings with the SEC. You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of forward-looking statements. These forward-looking statements speak only as of the date this presentation is first issued or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. This presentation also contain non-GAAP financial measures. A reconciliation to the nearest GAAP measure and a discussion of the company’s use of these measures are included in the appendix.

# 2018 Guidance as of 10/24/18<sup>(1)</sup>



Sales (\$B)	~30.0
Segment operating margin rate <sup>(2)</sup>	Mid 11%
Net FAS/CAS pension adjustment (\$M) <sup>(3)</sup>	~1,110
Unallocated corporate expenses (\$M) <sup>(4)</sup>	~265
Operating margin rate	Mid 12%
Net interest expense (\$M) <sup>(5)</sup>	~500
Effective Tax Rate	Mid 13%
Diluted EPS	\$18.75 – \$19.00
Capital expenditures (\$B)	~1.150
Free cash flow (\$B) <sup>(2)(6)</sup>	2.5 – 2.7

(1) 2018 financial guidance reflects the company's judgment based on the best information available to the company at the time of this presentation.

(2) Non-GAAP metric see Appendix

(3) Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes expected 2018 CAS pension cost of \$1 billion and FAS pension income of \$110 million. In accordance with ASU No. 2017-07, \$405 million of FAS (service-related) pension cost is reflected in operating income and \$515 million of FAS (non-service) pension income is reflected below operating income. CAS pension cost continues to be recorded in operating income. See Schedule 4 of the Third Quarter 2018 earnings release for further information.

(4) Reflects \$223 million Q3 2018 cost claims settlement and includes \$225 million of estimated expense for Merger-related items including amortization of purchased intangible assets and the additional depreciation expense related to the step-up in fair value of acquired Orbital ATK property, plant and equipment. These items are included in unallocated corporate expense as they are not considered part of management's evaluation of segment operating performance.

(5) Includes full year of net interest expense for \$8.25 billion debt issued in October 2017 to finance the Orbital ATK acquisition, as well as estimated net interest for the company's remaining debt.

(6) 2018 Free cash flow guidance is after the third quarter \$250 million discretionary pension contribution.

# 2018 Sector Guidance Summary



Sector	Sales (\$B)	OM Rate
Aerospace Systems	13.0 – 13.2	Mid to high 10%
Innovation Systems	3.1 – 3.2	Mid to high 10%
Mission Systems	11.6 – 11.8	~13%
Technology Services	4.2 – 4.3	~ 10%

# Merger-related Items



(\$ Millions)	2018	2019	2020	2021	2022	2023
Amortization of OA Purchased Intangibles	194	320	255	197	190	72
Amortization of Other Purchased Intangibles	13	11	7	7	6	6
Acquired OA Property, Plant & Equipment Depreciation	18	48	44	43	37	36
<b>Total</b>	<b>225</b>	<b>379</b>	<b>306</b>	<b>247</b>	<b>233</b>	<b>114</b>

# 2018 – 2020 Pension Estimates (\$M)<sup>(1)</sup>



	2018E	2019E	2020E
Total Net FAS/CAS adjustment	~1,110	~750	~825
CAS	~1,000	~850	~800
FAS service expense	~(405)	~(400)	~(350)
FAS non-service benefit	~515	~300	~375
Required Funding	~90	~180	~270

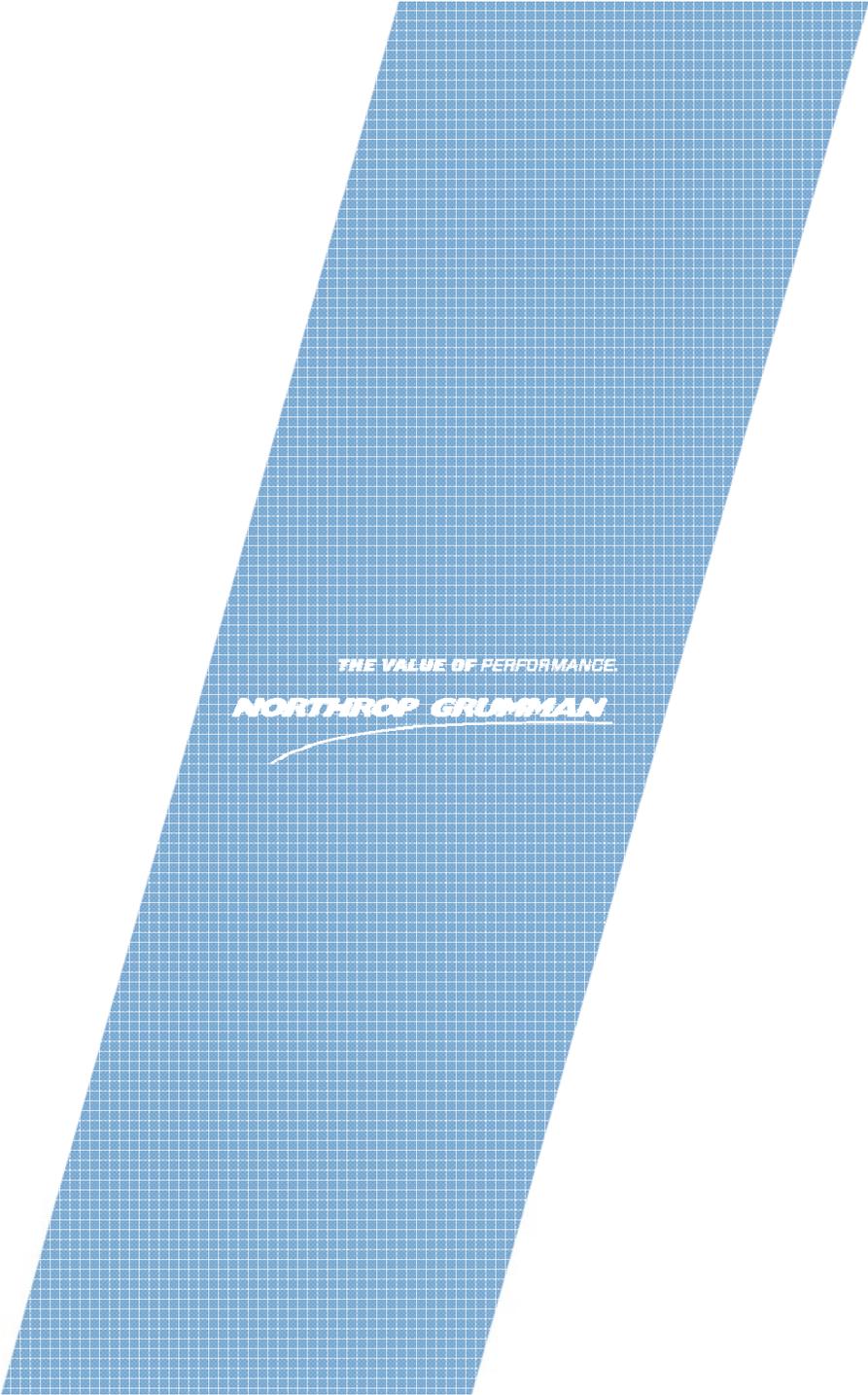
(1) Assumes a 4.18% discount rate for 2019 and 2020, 2018 plan asset return of 0%, and an 8% long-term rate of return for all years presented.

# 2019 Pension Sensitivities



Change <sup>(1)</sup>	Metric	Total Impact (\$M)
Discount rate +/- 25 bps	Non-Service FAS	~55
	Service FAS	~15
	Net Pension Liability	~1,030
Pension asset returns +/- 100 bps	Non-Service FAS	~50
	Net Pension Liability	~300

<sup>(1)</sup> From 2018 discount rate of 3.68% for legacy NG plans, discount rate of 4.17% for legacy OATK plans, and assumed net pension asset returns of 8.0%.



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# Appendix

# Non-GAAP Definitions



**Non-GAAP Financial Measures Disclosure:** This presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC (Securities and Exchange Commission) Regulation G and indicated by a footnote in the text of the presentation. Definitions for the non-GAAP measures are provided below. Other companies may define these measures differently or may utilize different non-GAAP measures.

**Segment operating income:** Total earnings from our four segments including allocated pension expense recognized under CAS, and excluding unallocated corporate items and FAS pension expense. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP.

**Segment operating margin rate:** Segment operating income as defined above divided by sales. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP.

**Free cash flow:** Net cash provided by operating activities less capital expenditures. We use free cash flow as a key factor in our planning for, and consideration of, acquisitions, stock repurchases and the payment of dividends. This measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP.

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